management, control, or operation of a telecommunications system or the management of a telecommunications service." 47 U.S.C. § 153(20).

The FCC has determined that these statutory definitions are mutually exclusive and parallel the definitions of "basic service" and "enhanced service" developed in the FCC's Computer II proceeding.<sup>6</sup> In this fashion, Congress intended to maintain a regime in which information service providers are not subject to regulation as common carriers merely because they provide their service "via telecommunications." Contrary to the DOC's allegations, Vonage's service satisfies the FCC's definition of an enhanced service and the FCC has never classified services like Vonage's as "telecommunications."

In the Second Computer Inquiry, the FCC defined unregulated "enhanced services" as "services, offered over common carrier transmission facilities used in interstate communications, which [1] employ computer processing applications that act on the format, content, code, protocol or similar aspects of the subscriber's transmitted information; [2] provide the subscriber additional, different or restructured information; or [3] involve subscriber interaction with stored information." Vonage's service changes the form of the information as sent and received by the user, by converting the asynchronous IP packets generated by the MTA into the synchronous TDMA format used by the public switched telephone network (and vice versa). As such, Vonage's provision of VoIP service "employ[s] computer processing applications that act on the format, content, code, protocol or similar aspects of the subscriber's transmitted information." While an enhanced service must only meet one of the criteria set out above, Vonage's service also "provide[s] the subscriber additional, different or restructured information."

<sup>&</sup>lt;sup>6</sup> Amendment of Section 64.702 of the Commission's Rules and Regulations (Second Computer Inquiry), Docket No. 20828, Final Decision, 77 FCC 2d 384 (1980) ("Computer II"), subsequent history omitted.

<sup>&</sup>lt;sup>7</sup> 47 C.F.R. § 64.702(a).

<sup>&</sup>lt;sup>8</sup> 47 C.F.R. § 64.702(a).

<sup>9</sup> Id.

While the functionality that Vonage provides is similar to that provided by traditional telephone companies, the manner in which Vonage provides its VoIP service is significantly different. In *Computer II*, the FCC recognized that communications and enhanced services could be similar.

We acknowledge, of course, the existence of a communications component. And we recognize that some enhanced services may do some of the same things that regulated communications services did in the past. On the other side, however, is the substantial data processing component in all these services. 10

The FCC concluded that the technological differences between the services justified different regulatory treatment.<sup>11</sup>

Vonage's service performs a form of data processing that perhaps was not foreseen in 1980, but is now feasible due to advances in technology: it processes voice communications into digital data and routes them over data networks, allowing users to place and receive telephone calls without a telephone line, through their broadband Internet connection. Nonetheless, the FCC did foresee the fact that the boundary between traditional communications and data processing would be blurry, and the mere fact that two services "do some of the same things" does not mean they should be regulated similarly. Rather, *Computer II* makes clear that it is essential to examine the actual functionality of the Vonage service to determine the appropriate level of regulation.

Vonage's provision of VoIP services does not originate and terminate calls in a format that is compatible with the traditional, circuit-switched telephone network. As noted above, a service may be classified as enhanced if it alters either the content or the format of the customer's transmissions. Vonage does not modify the content of its customers' transmissions, but

<sup>10</sup> Computer II at 435 (emphasis added).

The FCC found that it had "ancillary jurisdiction" to regulate enhanced services under Title I of the 1934 Act for the purpose of "assuring a Nation-wide wire and radio communications service with adequate facilities at reasonable charges." However, the FCC declined to exercise this jurisdiction, finding that common carrier regulation of enhanced services is unwarranted. *Id.* 

it does convert these transmissions to provide an interface between otherwise incompatible network protocols. The FCC has specifically held that such protocol conversion services are enhanced, as long as they perform a *net* protocol conversion.<sup>12</sup> The net conversion test examines the service on an end-to-end basis from the demarcation point at the premises of the originating caller to the demarcation point where the call will be terminated.<sup>13</sup>

Vonage's VoIP service satisfies the FCC's net protocol conversion test and therefore is not originating and terminating its service in the same format. As set out above, the net conversion test examines the service on an end-to-end basis from the demarcation point at the premises of the originating caller to the demarcation point where the call will be terminated. Vonage's service requires the installation of the MTA on the customer's premises. As a result, when a Vonage customer originates a telephone call, the MTA allows Vonage customers to convert analog voice signals into digital IP data packets that travel over the Internet in an asynchronous mode. Vonage subscribers can also use the MTA to convert digital IP packets that travel over the Internet into analog voice signals when receiving calls. When originating phone calls,

Services that result in no net protocol conversion to the end user continue to be classified as basic services. Communications Protocols under Section 64.702 of the Commission's Rules and Regulations, Memorandum Opinion, Order, and Statement of Principles, 95 FCC 2d 584, 596 (1983) ("Communications Protocols Decision"). The FCC later summarized this conclusion to stand for the principle that the protocol conversion standard of 64.702(a) does not reach network processing in carrier's networks (setup, takedown and routing of calls or their sub-elements). Waiver of Section 64.702 of the Commission's Rules, Memorandum Opinion and Order, 100 FCC 2d 1057, 1071 (1985).

In its Third Computer Inquiry, the FCC restated three exceptions to the rule that protocol processing renders a service enhanced. First, the FCC limited the enhanced services definition to end-to-end communications between or among subscribers. In other words, communications between a subscriber and the network are not enhanced services. Second, protocol conversion required by the introduction of new technology does not qualify as an enhanced service. Thus where innovative "basic" network technology is introduced slowly to the network and conversion equipment is used to maintain compatibility with CPE, the protocol conversion does not render the service enhanced. Third, conversions taking place solely within the network facilitate basic service and are not enhanced. Amendment of Sections 64.702 of the Commission's Rules and Regulations (Computer III), Phase II, CC Docket No. 85-229, Report and Order, 2 FCC Rcd 3072, 3081-3082 (1987).

<sup>&</sup>lt;sup>13</sup> FCC rules define the demarcation point as the point of demarcation and/or interconnection between the communications facilities of a provider of wireline telecommunications, and terminal equipment, protective apparatus or wiring at a subscriber's premises. 47 C.F.R. § 68.3. At least for purposes of the FCC's access charge rules, a call "terminates" at the demarcation point. 47 C.F.R. § 69.2(cc).

Vonage customers are transforming analog signals into IP data packets and routing the packets over the Internet's packet switched network. Similarly, when a call terminates at the Vonage Point of Presence, the call is carried by the customers of the ISP in data format and is converted from an IP data packet to an analog voice signal at the CPE. The ultimate digital-to-analog conversion is not performed within the Vonage network, but on the Vonage's customer's premises by CPE, both when originating and receiving a telephone call. Thus, Vonage's service performs a net protocol conversion as defined by the FCC.

In sum, contrary to the DOC's allegations, <sup>14</sup> DigitalVoice does not meet two of the four tentative criteria the FCC identified for phone-to-phone IP telephony that "bears the characteristics of" telecommunications services. First, because a Vonage customer must use CPE different from the CPE used to place an ordinary touch-tone call, specifically the MTA, Vonage's service does not meet the second tentative criterion the FCC set forth for phone-to-phone IP telephony. <sup>15</sup> Second, as explained above, because Vonage's service performs a net protocol conversion end-to-end, it does not meet the fourth tentative FCC criterion. <sup>16</sup> Moreover, the FCC refused to declare categorically that every service that met its four criteria would necessarily be a telecommunications service, concluding that "[w]e do not believe ... that it is appropriate to make any definitive pronouncements in the absence of a more complete record focused on individual service offerings." Again, this FCC refusal to classify phone-to-phone IP telephony as a

<sup>&</sup>lt;sup>14</sup> DOC Complaint at ¶¶ 12-22.

<sup>&</sup>lt;sup>15</sup> See DOC Complaint at ¶ 12. Vonage notes that in paraphrasing the FCC criteria, the DOC misrepresented those criteria. The second prong of the FCC's four-part test does not rest on the similarity of CPE, but rather rests on the fact that the customer is not required "to use CPE different from that CPE necessary to place an ordinary touch-tone call." Federal-State Joint Board on Universal Service, Report to Congress, 13 FCC Rcd. 11501, ¶ 88 (1998) ("Report to Congress").

Again, by paraphrasing the Report to Congress, the DOC misrepresents footnote 188. That footnote states that "Routing and protocol conversion within the network does not change this conclusion, because from the user's standpoint there is no net change in form or content." (Emphasis added.) The FCC made no generic finding, as the DOC implies, that all phone-to-phone IP telephony transmits customer information without a net change in form.

<sup>&</sup>lt;sup>17</sup> Report to Congress at ¶ 90.

telecommunications service weighs against the Commission determining with respect to this novel question of law, that the DOC is likely to succeed on the merits.

Finally, the Commission should note that an unduly broad definition of "telephone service" would undoubtedly sweep into regulation entities that are far afield from the legislature's intent, as construed in *Minnesota Microwave*. Minnesota customers have available to them any number of services that transmit two-way communications (including voice communications) by means other than by "telephone," and these services are not regulated. For example, AOL's Instant Messenger service transmits two-way communications instantaneously in the form of text messages, and can also transmit voice messages over user-supplied hardware (the AIM Talk feature). Microsoft's XBOX Live<sup>TM</sup> service allows customers to play video games against each other over the Internet, and, with a provided Communicator headset, also allows them to talk to each other while playing. These are just two of the most prominent service providers, but many other examples exist of voice communications services that are not transmitted by telephone. As the Court cautioned in *Minnesota Microwave*, the statute should not be interpreted so broadly as to regulate businesses that do not threaten "the usual monopolistic evils." 190 N.W.2d at 667.

For all these reasons, the Commission should find that the term "telephone service" does not encompass Vonage's service, and therefore that the DOC is not likely to prevail on the merits. 18

#### Temporary Relief Is Not in the Public Interest

Contrary to the statutory requirement, the temporary relief sought by the DOC is not "necessary to protect the public's interest in fair and reasonable competition[.]" The DOC has failed to show how its requests meet these standards. To the contrary, the requested action would be contrary to the public's interest in competition, because it would deprive Minnesota customers of the ability to access an exciting, innovative new Internet service.

All of the DOC's specific allegations against Vonage are based on the premise that Vonage is offering telephone service, and therefore the DOC's likelihood of success on all claims depends on that threshold issue. Vonage will respond to these allegations in detail in its Answer.

### 1. The DOC's Actions Show that the Requested Relief Is Not Necessary

The claim that temporary relief is "necessary" is contradicted by the leisurely approach taken by the DOC itself in preparing its Complaint. As the DOC itself states, it began investigating Vonage in December 2002. It waited nearly seven (7) months before filing a Complaint alleging (in very vague terms) that dire consequences may ensue if Vonage is permitted to operate even for a few more weeks. In this case, the DOC's actions speak louder than its words. There is no pressing emergency requiring the Commission to act precipitously.

# 2. Granting the DOC's Relief Would Deprive Minnesota Consumers of Competitive Alternatives

The DOC's claim that "fair and reasonable competition" would be impaired without immediate temporary relief is preposterous. There are over three million telephone access lines in the state of Minnesota. Younge believes that it has approximately 426 customers in Minnesota. John Rego Affidavit at ¶ 3. Even assuming arguendo that Vonage were somehow competing "unfairly" by operating without a certificate of authority, it is inconceivable that a few months of providing service to a handful of customers would have any material effect on telephone markets as a whole or on the public at large.

### 3. The Statute Protects the Public Interest in Competition, Not Safety

The DOC's repeated insinuations that Vonage is creating a risk to public safety by employing improper 911 procedures are false, misleading and irrelevant to the legal standard. In this respect, again, the DOC's leisurely attitude is revealing. When the DOC began its investigation of Vonage in 2002, the company promptly advised DOC that it was not (at that time) completing any 911 calls. The DOC evidently did not consider the absence of 911 service to constitute a public safety crisis, because it took no action. Since then, Vonage began providing an interim 911 dialing solution. Although the DOC claims that this solution is not adequate, it

<sup>&</sup>lt;sup>19</sup> See Leslie Brooks Suzukamo, "Race for local phone service heats up," Pioneer Press (June 12, 2003) (available at http://www.twincities.com/mld/pioneerpress/news/local/6076042.htm).

would seem obvious that completing even some 911 calls is better than completing none; yet the DOC did not act until after Vonage started completing 911 calls.

Moreover, because the DOC's concerns about 911 are based on a network configuration that other entities use in Minnesota, its request is actually against the public's interest in fair competition. It is Vonage's understanding that Telecommunications Relay Service ("TRS") calls, telematics calls, cellular calls, and possibly calls by other entities, are delivered to the Public Safety Answering Point ("PSAP") over administrative lines rather than dedicated 911 trunks.

Further, the DOC's concerns are based on a network configuration that Vonage is in the process of changing. Vonage is routing calls to PSAP administrative lines as an interim 911 solution. However, Vonage is working diligently with its 911 provider and other partners, who are in turn working with PSAPs, to deliver Vonage 911 calls over dedicated 911 trunks. Vonage and its partners are testing this new network configuration for the delivery of enhanced 911 calls during the week of July 21, 2003 and are willing to work with the DOC, the Department of Administration, and the Metropolitan 911 Board as Vonage transitions to its permanent E911 solution in Minnesota. John Rego Affidavit at ¶ 2, Exhibits 1-3.

Ironically, because telephone companies may not provide 911 service until their 911 plan is approved, granting the DOC's requested relief would actually result in no 911 service for Vonage customers while this proceeding is pending. The DOC has not explained why no 911 service promotes the public interest more than Vonage's interim 911 service does.

Finally, while Vonage agrees that safety is important, that aspect of the public interest is not included in the statutory criteria for granting temporary relief under Minn. Stats. § 237.462, subd. 7. Violations of laws or rules relating to public safety may be remedied under other statutory provisions, but the DOC fails to explain how promoting public safety promotes the public's interest in fair and reasonable competition.

For all these reasons, the DOC's request for temporary 911 relief does not satisfy the requirements of the statute.

4. Granting the Requested Relief Would Deny Vonage Important Statutory and Constitutional Rights

Most of the temporary relief requested by the DOC is improper for other reasons. The request for a copy of a contract is an improper attempt to use the temporary relief procedure to bypass the discovery process. If the DOC believes that a particular document is relevant to an issue in dispute in this proceeding, it has the right to submit a discovery request under the rules governing contested cases, or in the case of an expedited proceeding under Minn. Stat. § 237.462, subd. 6(j)(1). Ordering the production of a document, without affording Vonage an opportunity to object to the relevance of the request, is not a proper form of temporary relief. Further, the DOC has not explained how the production of this contract to the DOC would promote the public's "interest in fair and reasonable competition" in any way.

The requests for a notice to current customers and the filing of a 911 plan clearly seek to prejudice the outcome of this proceeding. If Vonage is required to announce to its current customers that it is not a certificated telephone company, that would plainly imply that the Commission believes the certification requirement is applicable. As the DOC no doubt intends, this notice would have a chilling effect on Vonage's customers and discourage them from continuing to use the company's service. Further, compelling Vonage to make statements contrary to its own legal position would have serious First Amendment implications. Similarly, requiring Vonage to file a 911 plan would amount to a finding that Vonage is subject to the statutory provisions requiring telephone companies to file these plans. Because Vonage would have to expend substantial resources to develop and file a plan before receiving a full hearing on its legal position, the DOC's request would impair Vonage's property rights without due process. Both of these requests, therefore, should be denied.

<sup>&</sup>lt;sup>20</sup> See, e.g., Livestock Marketing Assoc. v. United States Dept, of Agriculture, No. 02-2769, 02-2832, 2003 WL 21523837 (8th Cir. July 8, 2003) (compelling beef producers to pay for advertising with which they disagree violates producer's First Amendment right to free speech).

<sup>&</sup>lt;sup>21</sup> See, e.g., Matthews v. Eldridge, 424 U.S. 319 (1976) (finding that a meaningful opportunity to be heard at a meaningful time and manner is required prior to impairing property rights); Fosselman v. Comm'r of Human

### The Requested Relief is Not Technically Feasible in Some Instances

The DOC requests that the Commission order Vonage to cease marketing its services and to mail a notice to all Minnesota customers. Because these two requests are not technically feasible, the Commission should deny these DOC requests.

As an initial matter, the DOC does not limit its marketing request to marketing in Minnesota. The Commission clearly does not have jurisdiction to order Vonage to cease its marketing efforts nationwide.<sup>22</sup> Moreover, Vonage markets its service through its website over the Internet and through national media. While Vonage may be able to add a disclaimer concerning service in Minnesota to its national marketing materials, Vonage cannot prevent all customers from using its service in Minnesota, which appears to be the DOC's goal. This is because Vonage's service is portable and not dependent on the customer's physical address. A Vonage customer may use Digital Voice from any broadband Internet connection. A Vonage customer may also purchase Vonage's service over the Internet, at retail stores, or through websites such as Amazon. Thus, a resident of New York or Minnesota could purchase Vonage's service from a RadioShack in New York, travel to Minnesota and, using a broadband Internet connection, place calls from Minnesota. Similarly, because Vonage does not provision facilities to its customers, a Minnesota resident could give Vonage an out-of-state address when ordering service. There is no technically feasible way for Vonage to determine, with respect to any particular call, whether that call is originating from a customer that is physically located in Minnesota. John Rego Affidavit at ¶ 4.

As a result of the facts described above, it would not be technically possible for Vonage to provide written notice to every customer who uses its service in Minnesota. For example, Vonage's customers can sign up for DigitalVoice over the Internet. Because Vonage does not

Services, 612 N.W.2d 456 (Minn.Ct.App. July 3, 2000) (stating that the fundamental requirement of due process is to be heard at a meaningful time and in a meaningful manner).

See Northwestern Bell Tel Co., 371 N.W. 2d 563, 565 (Minn.Ct. App.1985) (the MPUC only has the "powers expressly delegated by the legislature and those fairly implied by and incident to those expressly delegated") (citing Great Northern Railway Co. v Pub. Serv. Comm'n, 284 Minn. 217 (Minn.1969)). Minnesota statutes only grant the Commission jurisdiction over intrastate matters.

provision facilities to its customer, the customer can give Vonage a billing address that is different from the customer's physical location. In fact, some customers may not provide a physical address at all if they sign up for credit card billing and email notifications. John Rego Affidavit at ¶ 5. Thus, while Vonage could technically mail notices to all customers who have given it a Minnesota address, Vonage does not know whether that would include all who actually use the service in Minnesota.

Because at least two of the four requests for temporary relief are not technically feasible, the Commission should deny these DOC requests.

### Conclusion

The DOC has not satisfied all three statutory criteria for temporary relief. Because DigitalVoice performs a net protocol conversion and Vonage does not provide facilities to its customers, DigitalVoice is not a "telephone service" subject to the Commission's jurisdiction. At a minimum, the question of whether DigitalVoice is a "telephone service" is a novel question that has not been addressed in Minnesota and the DOC cannot show that it is likely to succeed on the merits. Moreover, the temporary relief the DOC requests is not "necessary to protect the public's interest in fair and reasonable competition." To the contrary, it would deprive Minnesota consumers of a competitive alternative to traditional telephone service. Finally, aside from the fact that the Commission does not have jurisdiction to award some of the requested relief, certain aspects of the temporary relief requested by the DOC are not technically feasible. The Commission should deny the DOC's request for temporary relief and determine whether it even has jurisdiction to refer this matter for an expedited proceeding.

Respectfully submitted,

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# AFFIDAVIT OF

**JOHN REGO** 

# Before the MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Complaint of the	)	
Minnesota Department of Commerce	)	
Against Vonage Holding Corp	Ś	
_	)	Docket No. P6214/C-03-108
Regarding Lack of Authority to Operate	)	
in Minnesota	Ś	

#### AFFIDAVIT OF JOHN REGO

JOHN REGO, being first duly sworn according to law, does hereby deposes and state as follows:

- 1. My name is John Rego. I have been employed by Vonage Holding Corp.

  ("Vonage") as Chief Financial Officer since July 15, 2002. Prior to joining Vonage, I worked as Vice President of Finance for business operations at RCN Corporation. Prior to RCN, I spent several years at Winstar Communications in a variety of corporate and operational finance positions, including Vice President of Finance for the SME, Internet, Web Hosting and Professional Services divisions. Additionally, I spent over 14 years in practice as a certified public accountant with international CPA firms. I hold a bachelor degree in accounting from Rutgers University. I have personal knowledge of the facts set forth herein and I make this affidavit in support of Vonage's Response to the Department of Commerce's request for temporary relief.
- 2. It is Vonage's understanding that Telecommunications Relay Service ("TRS") calls, telematics calls, some cellular calls, and possibly calls by other entities, are delivered to the Public Safety Answering Point ("PSAP") over administrative lines rather than dedicated 911 trunks. Vonage is using this method as an interim 911 solution.

- 3. The Metropolitan 911 Board contacted Intrado, Vonage's 911 provider, and Vonage, concerning Vonage's interim 911 solution. Intrado has been working with the Board on behalf of Vonage and Vonage is willing to work with the Department of Commerce, the Department of Administration, and the Metropolitan 911 Board as Vonage transitions to its permanent E911 solution in Minnesota. Attached as Exhibits 1, 2, and 3 to this Affidavit are correspondence concerning Vonage's efforts to work with the Board.
- 4. Vonage is working diligently with its 911 provider and other partners, who are in turn working with PSAPs, to deliver Vonage 911 calls over dedicated 911 trunks that will deliver Automatic Location Information ("ALI") and Automatic Number Identification ("ANI").

  Vonage and its partners are testing this new network configuration for the delivery of basic and enhanced 911 calls during the week of July 21, 2003.
- 5. To the best of my knowledge based on the business records available to me,
  Vonage has approximately 426 customers in Minnesota. Because customers may purchase
  Vonage's service over the Internet, through websites such as Amazon, and at retail stores such as
  RadioShack. Vonage may not be aware if a particular customer is a Minnesota resident.
- 6. Vonage cannot prevent all customers from using its service in Minnesota. This is because Vonage's service is portable and not dependent on the customer's physical address. A Vonage customer may use DigitalVoice from any broadband Internet connection. Thus, a resident of New York or Minnesota could purchase Vonage's service from a RadioShack in New York, travel to Minnesota and, using a broadband Internet connection, place calls from Minnesota. Similarly, because Vonage does not provision facilities to its customers, a Minnesota resident could give Vonage an out-of-state address when ordering service. There is no

technically feasible way for Vonage to determine, with respect to any particular call, whether that call is originating from a customer that is physically located in Minnesota.

Vonage to provide written notice to every customer who uses its service in Minnesota. For example, Vonage's customers can sign up for DigitalVoice over the Internet. Because Vonage does not provision facilities to its customer, the customer can give Vonage a billing address that is different from the customer's physical location. In fact, some customers may not provide a physical address at all if they sign up for credit card billing and email notifications.

John Rego

Subscribed and sworn to before me this 22 day of July, 2003.

Notary Public

My commission expires:

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### **EXHIBIT 1**

1732.526.2600 1732.287.9119

www.vonage.com

June 25, 2003

Ms. Cindy Clugy
Director State Regulatory Affairs-SME
Legal and Governmental Affairs
Intrado
6503 Brittany Park Lane
Houston, TX 77066

### Dear Cindy:

Vonage received a copy of the letter from Nancy Pollock of the Metropolitan 911 Board of Saint Paul, Minnesota ("MinnMetro") dated May 22, 2003 directed to your attention at Intrado. We appreciate your efforts in responding to MinnMetro's as well as Vonage's concerns related to the letter. This letter is to confirm Vonage's understanding that Intrado has responded to the MinnMetro letter and that Intrado is working with MinnMetro to address the issues raised by MinnMetro. Moreover, this confirms our understanding that Intrado will continue to provide its 911-related routing and services to Vonage within the MinnMetro area and that Intrado is not aware of any circumstances in the MinnMetro area that will cause degradation, interference with or disruption to the 911 services provisioned to Vonage's customers.

Again, we thank you for your efforts in working with MinnMetro. Please do not hesitate to contact me with any additional concerns or should you need any additional information from Vonage in this regard.

Sincerely.

John S. Rego

Chief Financial Officer

Vonage Holdings Corporation

CC: Louis Holder, Vonage William B. Wilhelm, Swidler Berlin Sherreff Friedman

## **EXHIBIT 2**

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